

Message Text

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ACTION XMB-04

INFO OCT-01 AF-10 NEA-10 ISO-00 AID-05 CIAE-00 COME-00

EB-08 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00

OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 /075 W

-----002269 030013Z /75

R 020755Z FEB 78

FM USLO RIYADH

TO SECSTATE WASHDC 303

INFO AMEMBASSY JIDDA

AMCONSUL DHAHRAN

AMEMBASSY KHARTOUM

UNCLAS RIYADH 091

E.O. 11652: N/A

TAGS: EAID, EINV, ECON, SA

SUBJECT: VISIT OF EXIM BANK TEAM TO RIYADH - JANUARY 24, 1978

1. EXIM TEAM CALLED ON SAUDI FUND FOR DEVELOPMENT (SFD) AND ARAB INVESTMENT COMPANY (AEC) TO EXPLORE THE WILLINGNESS OF THESE REGIONAL DEVELOPMENT INSTITUTIONS TO COOPERATE WITH EXIM BANK IN FINANCING THIRD WORLD PROJECTS. WHILE BOTH SFD AND AIC TURNED DOWN THE IDEA OF GUARANTEEING EXIM LOANS, AIC EXPRESSED STRONG INTEREST JOINTLY FINANCING PROJECTS WITH EXIM BANK. TEAM ALSO MET WITH DEPUTY MINISTER FOR WATER AFFAIRS TO TEST SAUDI INTEREST IN A PROPOSAL TO TRANSPORT WATER FROM THE SUDAN TONSAKEI ARABIA. THE TEAM WAS TOLD THAT SAG WAS DETERMINED TO RELY ON ITS OWN RESOURCES FOR WATER SUPPLY.

2. TEAM WAS TOLD BY YOSSEF RIYARI, SENIOR ADVISOR AT SFD, THAT THE FUND'S ABILITY TO COOPERATE WITH EXIM WAS CURTAILED BY FOLLOWING LIMITATIONS IN ITS CHARTER: (A) SFD CANNOT GUARANTEE LOANS; (B) SFD CAN ONLY PARTICIPATE IN PROJECTS OPEN TO INTERNATIONAL BIDDING; (C) PROJECT APPLICATIONS MUST BE INITIATED BY GOVERNMENT OF PROJECT COUNTRY, NOT ANOTHER FINANCIAL INSTITUTION. TEAM ASKED WHETHER SFD MIGHT BE ABLE TO PICK UP NON-US
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COSTS ON A PROJECT WHERE EXIM FINANCED THE U.S. COSTS. RIYARI SAID THAT THIS APPEARED PERMISSIBLE PROVIDED THE ORIGINAL BIDDING MET DSFD STANDARDS. HOWEVER, SFD HAD NOT YET DONE ANY JOINT FINANCING AND SUCH AN ARRANGEMENT WOULD REQUIRE A POLICY DECISION BY THE BOARD OF DIRECTORS. RIYARI ADDED THAT SUCH A POLICY REVIEW COULD NOT BE INITIATED BY EXIM AND WOULD HAVE TO WAIT UNTIL A LOAN APPLICATION WAS

SUBMITTED BY AND LDC GOVERNMENT. SFD IMPOSED NO REQUIREMENT THAT THE APPLICANT COUNTRY BE ARAB OR ISLAMIC; THE ONLY CRITERIA WERE FINANCIAL NEED AND NONCOMMUNIST STATUS. SPECIFICALLY, TURKEY WAS KISQUALIFIED FOR BEING TOO RICH AND ANGOLA FOR BEING MARXIST. SOUTH YEMEN WAS AN EXCEPTION, BOTH BECAUSE ITS MARXIST STATUS WAS UNCLEAR AND BECAUSE OF ITS REGIONAL IMPORTANCE.

3. AT MEETINGS WITH ABDUL RAHMAN AL SAI, DIRECTOR OF ARAB INVESTMENT BANK, TEAM APPEARED TO REACH AN UNDERSTANDING WHICH COULD BECOME BASIS OF WORKING RELATIONSHIP. AL SAI EXPLAINED THAT ALTHOUGH AIC SHAREHOLDERS ARE ARAB GOVERNMENTS AND THE INSTITUTION IS COMMITTED TO ECONOMIC INTEGRATION OF THE ARAB WORLD, THE INSTITUTION IS REQUIRED TO SHOW A NORMAL COMMERCIAL RETURN ON ITS LOANS. SINCE EXIM IS UNDER SIMILAR REQUIREMENT AIC COULD CONFIDENTLY RELY ON EXIM'S PROJECR EVALUATION IN JOINT FINANCING ARRANGEMENTS WHILE AIC WAS BUILDING ITS OWN STAFF. IN RETURN AIC COULD CONTRIBUTE KNOWLEDGE ABOUT ACTORS IN THE ARAB WORLD AND ALSO COULD DEAL WITH APPLICANTS WITH MORE CANDOR THAN COULD A NON-ARAB INSTITUTION. AL SAI TURNED DOWN GUARANTEES FOR EXIM LOANS, HOWEVER, SAYING THAT HE COULD NOT ACCEPT RISK EXPOSURE THAT EXIM ITSELF WAS UNWILLING TO ACCEPT. AL SAI SAID THAT EXCEPT FOR THE REQUIREMENT THAT AIC PROJECT BE IN ARAB COUNTRIES, HE HAD THE SAME FLEXIBILITY IN PROJECT FINANCING AND PORTFOLIO MANAGEMENT AS A PRIVATE BANK. SINCE AIC OPERATES IN EURO-DOLLARS IT IS NOT RESTRICTED IN CHARGING INTEREST AND WOULD NOT HESITATE TO UNCLASSIFIED

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CHARGE 3 POINTS ABOVE LIBO IF THE RISK JUSTIFIED.

4. DISCUSSION THEN TURNED TO THE KENANA SUGAR PROJECT IN THE SUDAN, WHICH AIC AND EXIM HAD WORKED ON TOGETHER IN THE EVALUATION STAGE. TEAM LEADER MORAN RECALLED THAT THERE HAD BEEN DISAGREEMENT, EXIM REJECTING THE PROJECT WHILE AIC PROCEEDED WITH THE FINANCING. AL SAI POINTED OUT THAT THE SUDAN LOAN WAS MADE BEFORE HE CAME TO AIC AND THAT IT HAD BEEN A MISTAKE. ONE THIRD OF AIC'S CONTRIBUTED CAPITAL IS NOW PARALYZED TO COVER ANTICIPATED LOSSES. EXIM'S REFUSAL TO BACK THE PROJECT ONLY ENHANCED AIC'S CONFIDENCE IN ITS FINANCIAL JUDGMENT. WHEN ASKED WHAT WENT WRONG WITH KENANA, AL SAI ANSWERED THAT HE DID NOT YET KNOW, BUT SUSPECTED THAT LARGE INFRASTRUCTURE COMPONENTS OF PROJECT MADE IT INAPPROPRIATE FOR MEDIUM TERM COMMERCIAL FINANCING. IN FUTURE AIC FINANCITNG WOULD BE LIMITED TO PLANT, EQUIPMENT AND WORKING CAPITAL REQUIREMENTS AND INFRASTRUCTURE WOU PK BE LEFT TO SOFT LOANS FROM DEVELOPMENT FUNDS.

5. THE TEAM APPROACHED ABDULLAH GHOLAIIKAH, DEPUTY MINISTER FOR WATER AFFAIRS FOR SAUDI REACTION TO A PLAN TO PIPE WATER FROM THE BLUE NILE TO PORT SUDAN AND TO TRANSPORT IT BY TANKER

TO SAUDI COASTAL CITIES. GHOLAIIKAH DISMISSED THE PLAN AS IN
THE SAME CLASS AS THE ICEBERG TOWING PROPOSALS. A SIMILAR PLAN
TO IMPORT WATER FROM EGYPT HAD BEEN STUDIED AND REJECTED AS TOO
EXPENSIVE, EVEN WHEN COMPARED WITH DESALINATION. MOREOVER,
SAG HAD DECIDED THAT ITS WATER NEEDS WOULD BE MET OUT OF IT
OWN RESOURCES.
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NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANKERS, VISITS, MEETING PROCEEDINGS, LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 feb 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978RIYADH00091
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780051-1110
Format: TEL
From: RIYADH
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197802100/aaaadhai.tel
Line Count: 123
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 98c7cdcc-c288-dd11-92da-001cc4696bcc
Office: ACTION XMB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 feb 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3429089
Secure: OPEN
Status: NATIVE
Subject: VISIT OF EXIM BANK TEAM TO RIYADH - JANUARY 24, 1978
TAGS: EAID, EINV, ECON, OVIP, SA, XMB
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/98c7cdcc-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014